

OVERVIEW OF GOVERNOR GRANHOLM'S FY 2005-06 BUDGET



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Governor Granholm's FY 2005-06 Budget Overview of Recommendations

The Governor's FY 2005-06 budget recommendation contains proposed State revenue increases, proposed fee increases, increases and decreases in State appropriations, assumptions concerning the amount and utilization of Federal funds, assumptions concerning the cost and funding of State employee salaries and fringe benefits, the transfer of State restricted fund balances, and the use of State bonded debt to meet certain budget objectives.

The Governor's FY 2005-06 budget recommendation is based on the consensus revenue estimate reached on January 13, 2005. The FY 2005-06 General Fund/General Purpose (GF/GP) consensus revenue estimate is \$8.16 billion. This represents a 3.6% increase from the consensus estimate of FY 2004-05 GF/GP revenues. The FY 2004-05 School Aid Fund consensus estimate is \$11.3 billion. This represents a 3.9% increase from the consensus estimate of FY 2004-05 School Aid Fund revenues.

The Governor's FY 2005-06 budget recommendation contains the following levels of appropriations:

Adjusted Gross.....	\$40.5 billion
State Spending from State Resources	\$27.2 billion
General Fund/General Purpose	\$8.88 billion
Full-Time Equated Positions.....	56,282

Adjusted Gross appropriations represent a \$1.25 billion or 3.2% increase from FY 2004-05 year-to-date appropriations. State Spending from State Resources appropriations represent a \$1.09 billion or 4.2% increase from FY 2004-05 year-to-date appropriations. GF/GP appropriations represent a \$24.4 million or 0.3% increase from FY 2004-05 year-to-date appropriations and the appropriated level of Full-Time-Equated positions represents a 732.4 or 1.3% decline from FY 2004-05 year-to-date appropriations.

Table 1

Adjusted Gross Appropriation History (Millions of Dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
1997-98	\$31,472.8	\$1,816.3	6.1%
1998-99	33,160.3	1,687.5	5.4
1999-2000	35,417.7	2,257.4	6.8
2000-01	37,052.8	1,635.1	4.6
2001-02	38,751.3	1,698.5	4.6
2002-03	39,553.1	801.8	2.1
2003-04	39,075.7	(477.4)	(1.2)
2004-05	39,236.7	161.0	0.4
2005-06 Gov	40,490.0	1,253.3	3.2
Appropriations have increased by \$3.4 billion or 9.3% from FY 2000-01 to FY 2005-06.			

State Spending from State Resources Appropriation History (Millions of Dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
1997-98	\$22,493.6	\$941.3	4.4%
1998-99	23,276.8	783.2	3.5
1999-2000	24,579.0	1,302.2	5.6
2000-01	25,762.1	1,183.1	4.8
2001-02	26,086.8	324.7	1.3
2002-03	26,020.5	(66.3)	(0.3)
2003-04	25,762.4	(258.1)	(1.0)
2004-05	26,156.9	394.5	1.5
2005-06 Gov	27,246.7	1,089.8	4.2
Appropriations have increased by \$1.5 billion or 5.8% from FY 2000-01 to FY 2005-06.			

General Fund/General Purpose Appropriation History (Millions of Dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
1997-98	\$8,735.1	\$366.0	4.4%
1998-99	9,415.0	679.9	7.8
1999-2000	9,607.7	192.7	2.0
2000-01	9,744.6	136.9	1.4
2001-02	9,189.3	(555.3)	(5.7)
2002-03	8,830.9	(358.4)	(3.9)
2003-04	8,821.6	(9.3)	(0.1)
2004-05	8,850.7	29.1	0.3
2005-06 Gov	8,875.1	24.4	0.3
Appropriations have declined by \$869.5 million or 8.9% from FY 2000-01 to FY 2005-06.			

Table 2

FY 2005-06 Budget General Fund/General Purpose Revenues, Expenditures and Year-End Balance (Millions of Dollars)	
Revenues:	
Beginning Balance	\$ 0.0
Other Revenue Adjustments:	
Consensus Revenue Estimate	8,156.2
Revenue Sharing Freeze	396.1
Suspend County Revenue Sharing	182.3
Cap Interfund Borrowing Rates	20.0
Nonuse of SBT Pharmaceutical Credit	10.0
Land Sales	10.0
Escheats Revenue	10.0
Subtotal Revenues	8,784.6
Governor's Recommended Revenue Adjustments:	
Tax Policy Changes	64.0
Agriculture Equine Industry Fund Transfer	6.1
Comprehensive Transportation Fund Transfer	11.1
Liquor License Fee Increase	13.0
Subtotal Governor's Recommended Revenue Adjustments	94.2
Total Estimated Revenues	\$8,878.8
Expenditures:	
Governor's Appropriation Recommendations	\$8,875.1
Projected Year-End Balance	\$ 3.7

Table 3

FY 2005-06 Budget School Aid Fund Revenues, Expenditures and Year-End Balance (Millions of Dollars)	
Revenues:	
Beginning Balance	\$ 23.7
Consensus Revenue Estimate	11,300.9
Other Revenue Adjustments:	
Payments in Lieu of Taxes	(2.0)
GF/GP Grant	20.2
Governor's Recommended Tax Policy Changes	47.9
School Bond Loan Fund Reform Proposal	44.5
Federal Revenue	1,374.1
Subtotal Other Revenue Adjustments	1,484.7
Total Estimated Revenues	\$12,809.3
Expenditures:	
Governor's Appropriation Recommendation	\$12,809.3
Projected Year-End Balance	\$ 0.0

Table 4

FY 2005-06 Governor's Budget Recommendation Revenue Increases Recommended in Budget (Millions of Dollars)		
Proposed Tax Increases	GF/GP	School Aid Fund
<u>Oil and Gas Severance Tax</u>		
Tax Oil and Gas Extracted from Marginal Wells at the Same Rate as Other Wells	\$2.2	\$0.0
<u>Sales and Use Tax</u>		
Subject International Phone Calls to Use Tax	14.6	7.3
Reduce Exemption for Interstate Trucks and Trailers	5.6	10.8
Remove Exemption for Motion Pictures	10.7	9.3
Remove Exemption for Food Sold in a Vending Machine	6.7	18.5
Remove Exemption for Purchases in Prison Stores	0.2	0.5
<u>Income Tax</u>		
Eliminate Deduction of Oil and Gas Depreciation Expenses	4.0	1.0
<u>Property Tax</u>		
Remove Exemption for Railroad Companies	20.0	0.0
Remove Exemption for Water Softeners from Personal Property Tax	0.0	0.5
Total Proposed Tax Increases	\$64.0	\$47.9
Other Revenue Items in Governor's Budget		
Casino Tax (Move Revenues from Agricultural Equine Fund to GF/GP)	6.1	0.0
Comprehensive Transportation Deposit to GF/GP	11.1	0.0
Sale of Surplus State Property	10.0	0.0
Other Revenue Items	\$27.2	\$0.0

Table 5

Governor's FY 2005-06 Appropriation Recommendations Major Proposed Changes from FY 2004-05 Year-To-Date General Fund/General Purpose Appropriations (Millions of Dollars)	
FY 2004-05 Year-To-Date Appropriations	\$8,850.7
FY 2005-06 Governor's Appropriation Recommendations	8,875.1
Net Increase in Appropriations	\$ 24.4
Total Funding Increases	\$ 474.7
Total Funding Reductions	(635.4)
Total Fund Shifts	185.1
Total GF/GP Funding Change	\$ 24.4

Table 6

FY 2005-06 Governor's Recommendation GF/GP Major Funding Increases (Millions of Dollars)	
<u>Department/Program</u>	
<u>Capital Outlay</u>	
State Building Authority Debt Service Payments.....	\$ 31.0
<u>Community Health</u>	
Medicaid Caseload/Utilization/Inflation.....	214.3
<u>Corrections</u>	
New Beds	14.4
Prisoner Re-entry Pilot Program.....	5.0
Prisoner Reentry for Mentally Ill Prisoners	3.0
Programs for Local Jails	4.0
Community Corrections Programs	3.0
Full-Year Costs of FY 2004-05 Prison Beds.....	3.9
Staff Seniority Step Increases	8.1
Substance Abuse Testing and Treatment	2.0
<u>Education</u>	
School Breakfast Program	1.6
<u>Family Independence Agency</u>	
Net Caseload Funding Increases	8.2
Information Technology Initiatives for Caseworkers	8.5
<u>Judiciary</u>	
Judges Salaries.....	0.4
<u>Treasury-Debt Service</u>	
General Obligation Bond Debt Service.....	7.6
Departmentwide Economic Issues:	
Restore FY 2004-05 Employee Concessions.....	76.3
Employee Insurance Cost Increases	37.5
Employee Retirement Cost Increases	44.3
Worker's Compensation Cost Adjustments	(2.5)
Building Occupancy Charges	4.1
Total Funding Increases	\$474.4

Table 7

**FY 2005-06 Governor's Recommendation
GF/GP Major Funding Reductions
(Millions of Dollars)**

<u>Community Colleges</u>	
Continuation of 1.76% Executive Order 2005-03 Reduction	\$(4.9)
Eliminate FY 2004-05 One-Time Funding	(8.5)
<u>Community Health</u>	
Medicaid Providers (4.0% Reduction)	(63.5)
Local Public Health Vision and Hearing Screening	(5.2)
Medicaid (Freeze Enrollment for 19 and 20 Year Olds)	(2.2)
Medicaid (Eliminate Retroactive Benefits)	(12.3)
Medicaid (Reduce Benefits for 19- and 20-Year-Olds and Caretaker Relatives)	(2.8)
Medicaid (Eliminate Chiropractic Services)	(0.6)
Medicaid (Change Eligibility for Nursing Home Residents)	(8.0)
Medicaid (Institute an Estate Recovery Program)	(4.3)
Office of Services to the Aging Program Reductions	(1.5)
<u>Corrections</u>	
Facility Closures	(25.5)
Eliminate Conditional Reintegration Program	(3.7)
Reduce Community Residential Programs	(3.1)
Decrease Security Levels at Five Facilities	(2.9)
Other Various Corrections Reductions	(6.0)
<u>Family Independence Agency</u>	
Indigent Burial 4% Reduction	(0.2)
Day Care 30 Day Waiting Period for New Enrollees	(10.0)
Licensing Costs	(2.0)
Juvenile Justice State Facilities Efficiencies	(3.8)
Foster Care Expense Efficiencies	(5.0)
<u>Higher Education</u>	
Continuation of 1.76% Executive Order 2005-03 Reduction	(27.6)
Eliminate CMU National Charter School Institute Grant	(0.5)
Eliminate Tuition Grant Program for Private Colleges	(61.8)
Reduce MSU Agricultural Experiment Station by 10%	(3.3)
Reduce MSU Cooperative Extension Service by 23.4%	(6.7)
Eliminate One-Time FY 2004-05 Funding	(43.0)
<u>History, Arts and Libraries</u>	
Eliminate Library Preservation Projects	(1.0)
Reduce Arts and Cultural Grants by 3.8%	(0.4)
<u>Information Technology</u>	
Continue Reductions in Executive Order 2005-03	(8.1)
Other Statewide Information Technology Reductions	(2.1)
<u>Management and Budget</u>	
Unspecified Reductions in State Contracts	(30.0)

FY 2005-06 Governor's Recommendation GF/GP Major Funding Reductions (Millions of Dollars)	
<u>Military and Veterans Affairs</u>	
Armory Closures	(0.3)
<u>Natural Resources</u>	
Law Enforcement Programs.....	(1.0)
<u>K-12 School Aid</u>	
Reduce GF/GP Grant to School Aid Fund	(244.5)
<u>State Police</u>	
Closure of Three Local Posts	(1.1)
Fire Investigation Program Reductions	(3.4)
<u>Treasury-Operations</u>	
Personal Property Tax Auditors	(2.5)
Other Reductions Statewide	(22.1)
Total Funding Reductions	\$(635.4)

Table 8

FY 2005-06 Governor's Recommendation Major Fee Increases/Funding Shifts to Increase/(Reduce) GF/GP (Millions of Dollars)	
<u>Department/Program</u>	
<u>Capital Outlay</u>	
State Agency Special Maintenance Fund Shift to GF/GP from State Restricted	\$ 2.0
<u>Community Health</u>	
Medicaid (Physician Quality Assessment to Offset GF/GP Funding)	(40.0)
Medicaid (Federal Match Rate Adjustment)	9.8
Medicaid (Shift from Tobacco Tax Funds to GF/GP Funding)	119.5
Medicaid (Shift to GF/GP to Replace Loss of Federal Funding)	161.2
Medicaid (Various Other Shifts from GF/GP to State Restricted Funding) ..	(33.0)
Community Mental Health Provider Assessment to Offset GF/GP Funding	(35.0)
Medicaid (Shift from use of Merit and Tobacco Settlement to GF/GP)	54.5
<u>Environmental Quality</u>	
Fund Shift of State Revolving Fund Program	5.8
<u>Family Independence Agency</u>	
Fund Shift for Homeless Shelter Contracts	(1.7)
Foster Care Fund Shift	(2.9)
Child Care Support System Fund Shift	(4.4)
<u>Higher Education</u>	
Shift Funding of WSU Psychiatric Research Program to Federal Funds	(5.6)
Shift Funding of University of Detroit Dental Clinics to Federal Funds	(4.5)
<u>History, Arts and Libraries</u>	
Mackinac Island State Park Fee Increase	(1.5)
<u>Judiciary</u>	
Court Equity Fund Shift to State Restricted Funding	(2.2)
<u>Labor and Economic Growth</u>	
Shift Funding of Life Sciences Grants to Bond Proceeds	(20.0)
<u>State</u>	
Fund Shift for Branch Offices to Restricted Transportation Funding	(10.0)
<u>State Police</u>	
School Bus Inspections Charged to Local School Districts	(1.2)
Michigan Commission on Law Enforcement Standards Shift to State Restricted	(2.0)
<u>Treasury-Debt Service</u>	
Quality of Life Bond Debt Service Fund Shift to GF/GP	2.9
Other Statewide Various Fund Shifts	(6.6)
Total Fund Shifts	\$185.1

Table 9

Economic Costs Included in Governor's FY 2005-06 State Budget Recommendations (Millions of Dollars)		
Economic Adjustment	Gross Appropriations	GF/GP Appropriations
Restoration of FY 2004-05 Employee Concessions	\$144.2	\$ 76.3
Employee Insurance Cost Increases	69.5	37.5
State Employee Retirement Cost Increases	90.2	44.3
Worker's Compensation Cost Adjustments	(4.7)	(2.5)
Agency Building Occupancy/Rental Charge Increases	9.4	4.1
Total Economic Adjustments	\$308.6	\$159.7
Employee Salary Increases Absorbed by Departments	\$46.4	\$24.8

Table 10

Retirement Contribution Rates As a Percentage of Payroll			
	FY 2004-05	FY 2005-06	FY 2005-06 Change
<u>State Employees Retirement System</u>			
Defined Benefit Pension	14.11%	14.30%	0.19%
Defined Benefit Health Care	11.40%	13.75%	2.35%
Total Defined Benefit Costs	25.51%	28.05%	2.54%
Defined Contribution Pension	6.00%	6.00%	0.00%
Defined Contribution Health Care	11.40%	13.75%	2.35%
Total Defined Contribution Costs	17.40%	19.75%	2.35%
<u>Public School Employees Retirement System</u>			
Defined Benefit Pension	8.32%	9.79%	1.47%
Defined Benefit Health Care	6.55%	6.55%	0.00%
Total Defined Benefit Costs	14.87%	16.34%	1.47%
Estimated FY 2005-06 Payroll: State Employees Retirement System, \$2.2 billion; Public School Employees Retirement System, \$9.0 billion.			

FY 2005-06 K-12 School Aid Fund Recommendations

The Governor is recommending a \$261.3 million or 2.3% increase in total State funding for K-12 Education. The GF/GP grant to the School Aid Fund is recommended to be reduced from the FY 2004-05 year-to-date level of \$264.7 million to an FY 2005-06 level of \$20.2 million.

The Basic Foundation Allowance will increase from \$6,700 in FY 2004-05 to \$6,875 in FY 2005-06, an increase of 2.6%. If enacted this Basic Foundation Allowance increase would be the first appropriated increase since FY 2002-03 when the Basic Foundation Allowance was increased from \$6,500 to \$6,700.

The Governor's recommendation includes additional funding of \$50 per pupil for each high school student. This proposal marks the first effort to institute a differential per pupil funding by grade since the current per-pupil funding was put in place in 1994.

Funding for At-Risk students is recommended to increase from \$314.2 million in FY 2004-05 to \$347.2 million or an increase of \$33.0 million or 10.5%.

Funding for debt service payments on loans made by the School Bond Loan Fund of \$44.5 million is offset by a proposal to capitalize the existing loans through a financing mechanism put in place by the Michigan Municipal Bond Authority.

The FY 2005-06 School Aid Fund budget recommendation is balanced utilizing \$47.9 million of increased School Aid Fund revenues from tax policy changes included in the Governor's overall budget recommendations.

FY 2005-06 Department of Community Health Recommendations

The Governor's FY 2005-06 budget recommendation includes GF/GP savings of \$144.1 million from a series of policy changes that will require the approval of Federal Medicaid waivers to implement. These policy changes include:

Community Mental Health 6.0% Provider Assessment: The Governor's budget seeks a Federal waiver to implement an assessment on Community Mental Health Boards. The FY 2005-06 GF/GP savings from this proposal is \$35.0 million.

Physician Provider 1.0% Provider Assessment: The Governor's budget seeks a Federal waiver to implement an assessment on physicians. The FY 2005-06 GF/GP savings from this proposal is \$40.0 million.

Actuarially Sound Rates for Medicaid HMOs: The FY 2004-05 State budget included funding for a 7.5% funding increase for Medicaid Health Maintenance Organization providers. Pursuant to Federal requirements a similar increase is required in FY 2005-06. The Governor's budget will be seeking a Federal waiver to avoid this funding increase of at least \$50.0 million GF/GP.

Medicaid Family Planning Waiver: The Governor's budget seeks a Federal waiver to extend family planning services through the Medicaid program to uninsured women ages 19 to 44 with incomes of up to 185% of the poverty level. The goal of the program is to reduce unintended births and save the State \$7.8 million GF/GP.

Freeze Enrollment of 19- and 20-Year-Olds: The Governor's budget seeks a Federal waiver to freeze the enrollment of 19- and 20-year-olds under Medicaid. This would result in a phase-out of this spending over the next two years. This policy change would save the State \$2.2 million GF/GP.

Eliminate Retroactive Medicaid Benefits: The Governor's budget seeks a Federal waiver to eliminate retroactive coverage for Medicaid clients. The retroactive payments cover health expenses incurred over the three-month period prior to the date of application to Medicaid until the enrollment is completed. This policy change would save the State \$12.3 million GF/GP.

Limit Medicaid Benefits for 19- and 20-Year-Olds and Caretaker Relatives: The Governor's budget seeks a Federal waiver to limit the Medicaid benefits paid to 19- and 20-year-olds and caretaker relatives. This policy change would save the State \$2.8 million GF/GP.

FY 2005-06 Department of Corrections Recommendations

The recommendation for the DOC totals \$1.88 billion in Gross funds and \$1.80 billion in GF/GP funds, which represent increases of 5.5% and 5.7% respectively.

Major Increases:

• Employee Economics	\$99,756,700
• Initiatives to Control Prison Growth.....	\$15,000,000
○ Prisoner Re-Entry Pilot Sites - \$5.0 million	
○ Mentally Ill Offender Re-Entry - \$3.0 million	
○ Local Jail Capacity - \$4.0 million	
○ Community Corrections/Sentencing Guidelines Changes - \$3.0 million	
• Add 1,352 Beds to Existing Facilities.....	\$14,448,300
○ Kinross, Ojibway, Cotton, Parnall, Gus Harrison, Lakeland, Pine River, Riverside, and St. Louis	
• Seniority Step Increases.....	\$8,085,200
• Full-Year Funding for Beds Opened in FY 2004-05.....	\$3,877,800
• Substance Abuse Testing and Treatment.....	\$2,040,400
• New Federal Grants for Reentry and Prison Rape Prevention	\$2,035,000
• Other Increases	\$1,525,300
Total.....	\$146,768,700

Major Reductions:

• Close Facilities	(\$25,733,200)
○ Cancel Michigan Youth Correctional Facility Contract – Baldwin (480 beds)	
○ Close Jackson A & B Units – Jackson (480 beds)	
○ Close Camp Tuscola – Caro (260 beds)	
○ Close Mangum Farm Barracks – Marquette (59 beds)	
○ Close Camp Sauble – Freesoil (156 beds)	
• Eliminate Conditional Reintegration Program (CRP II)	(\$5,514,800)
• Reduce Community Residential Program (CRP 1)	(\$4,273,200)
○ Close Saginaw/Buena Vista Corrections Center	
○ Close Benton Harbor Corrections Center	
• Close Jackson Food Production Kitchen	(\$3,460,300)
• Decrease Security Levels at Five Prisons	(\$2,871,900)
• Health Care Managed Care Contract Efficiencies	(\$1,698,200)
• Central Office Staffing Reductions.....	(\$1,118,700)
• DIT Reductions	(\$1,012,300)
• Close DeMarse Training Academy and use MSP Facility.....	(\$1,000,000)
• Other Reductions.....	(\$3,626,100)
Total.....	(\$49,308,700)

Higher Education and Community Colleges Recommendations

FY 2004-05: The Governor's Executive Order 2005-03 reduces appropriations for Community Colleges and Universities by \$30 million. Although these reductions are proposed to be offset by bonding for \$100 million in additional special maintenance funds, the \$30 million reduction appears not to honor the following language which is included in both the annual Higher Education and Community Colleges appropriations acts:

Sec. 436 (3). If a state university complies with the tuition restraint requirements described in this section, its state appropriation will not be reduced by executive order or any other manner during the 2004-2005 fiscal year.

FY 2005-06: State appropriations for both Community Colleges and Universities would be frozen at the FY 2004-05 amounts after the \$30 million in across-the-board EO reductions. An additional \$100 million in special maintenance bond funds are recommended for FY 2005-06, for a two-year special maintenance total of \$200 million.

- **Tuition Restraint.** The Governor's budget includes a tuition restraint policy for the 15 public universities but not for the 28 community colleges. The tuition restraint policy for universities limits academic year 2005-06 resident undergraduate tuition and required fee increases to 5.0% or \$307, whichever is greater. The FY 2005-06 tuition restraint policy also disallows the adoption of any new type of student fees, and requires institutional financial aid for undergraduates to increase by at least the same percentage as tuition and required fees. If universities do not comply with the tuition restraint policy, they could collectively lose \$87.8 million in State appropriations.
- **Tuition Grants.** The Governor once again recommends elimination of these need-based grants for students attending Michigan's independent colleges and universities, for a GF/GP savings of \$61.8 million.
- **Merit Awards.** The Governor has proposed the creation of a "new" Merit Scholarship beginning with the high school class of 2007. The new \$4,000 Merit Scholarship would be awarded to students who successfully obtain an associates degree or its equivalent or who earn junior status at a Michigan college or university. For students who receive Pell grants, the new Merit Scholarship would make up the difference between their Federal grant and \$4,000. The high school classes of 2005 and 2006 would continue to be eligible for the \$2,500 Michigan Merit Award if they successfully pass the MEAP exam. The Governor also recommends that the \$1,000 awards for students attending out-of-state schools and the extra \$250-\$500 middle school awards be eliminated.

State Appropriations for Public College and University Operations (Actual Dollars)				
Budget Area	FY 2001-02 Appropriation	FY 2005-06 Governor's Rec.	Appropriation Change	Percent Change
Community Colleges	\$315,504,216	\$275,104,700	(\$40,399,516)	(12.8)%
Universities	1,615,486,200	1,400,524,800	(214,961,400)	(13.3)%
Total	\$1,930,990,416	\$1,675,629,500	(\$255,360,916)	(13.2)%

Table 11

Tobacco Settlement Appropriations (Actual Dollars)			
Department/Program	FY 2004-05 Year-to-Date Appropriations	FY 2005-06 Gov's Rec. Appropriations	Dollar Change
<u>Merit Award Trust Fund</u>			
<u>Community Health</u>			
Medicaid Base Funding	\$110,675,000	\$50,300,000	\$(60,375,000)
<u>Education</u>			
Michigan Education Assessment Program ...	13,685,200	16,300,000	2,614,800
<u>Higher Education</u>			
Merit Award Scholarships	61,400,000	121,000,000	59,600,000
Tuition Incentive Program	10,250,000	12,000,000	1,750,000
Nursing Scholarship Program	4,000,000	4,000,000	0
Operations Funding	9,500,000	9,500,000	0
<u>Treasury</u>			
Merit Award Board	1,580,400	1,636,800	56,400
Tuition Incentive Program Administration	385,100	399,700	14,600
Michigan Education Savings Program	1,000,000	1,000,000	0
Information Technology	393,000	400,400	7,400
Transfer to General Fund	5,250,000	0	(5,250,000)
Total Merit Award Trust Fund Approps	\$218,118,700	\$216,536,900	\$(1,581,800)
<u>Tobacco Settlement Trust Fund</u>			
<u>Attorney General</u>			
Legal Services	368,200	386,800	18,600
<u>Community Health</u>			
Senior Prescription Drug Program	25,500,000	3,900,000	(21,600,000)
Nursing Home Personal Needs Allowance ...	5,000,000	5,000,000	0
Senior Respite Care Services	5,000,000	5,000,000	0
Medicaid Base Funding	30,625,000	58,100,000	27,475,000
<u>Labor and Economic Growth</u>			
Life Sciences Funding	10,000,000	0	(10,000,000)
Transfer to General Fund	1,750,000	0	(1,750,000)
Total Tobacco Settlement Trust Fund Appropriations	\$78,243,200	\$72,386,800	\$(5,856,400)
Total Tobacco Settlement Appropriations	\$296,361,900	\$288,923,700	\$(7,438,200)

Bonding Proposals Included in Governor's FY 2005-06 Budget Message

General Obligation Bonding Proposal

The Governor is recommending that the Legislature authorize the State to issue \$2.0 billion of General Obligation bonds. State General Obligation bond issues a two-thirds vote of both Houses of the Legislature and a positive vote of the public in a statewide election to be effective. The Governor is recommending that the Legislature approve the bond issue and that a statewide special election for voter approval be held November 2, 2005.

The Governor is referring to this General Obligation bond proposal as "Michigan's 21st Century Jobs Initiative". The proposal call for the issuance of \$200 million of General Obligation bonds per year for the next 10 years. The proceeds of the bonds would be used for the following purposes:

- Increase the amount of research and innovation taking place at State Universities, companies, and nonprofit research institutions.
- Accelerate the pace of commercialization.
- Generate new companies that produce cutting edge technologies and allow Michigan to leverage State dollars to attract more research funds.
- Increase early stage capital, attract new talent, and provide assistance to technology startups and entrepreneurs.

The annual debt service payments on these General Obligation bonds would be approximately \$12 million per year of each \$200 million of debt issued. When the entire \$2.0 billion of General Obligation bonds are issued the annual debt service cost would be approximately \$120 million. This obligation would continue for 30 years following the final issuance of the bonds.

Other Bonding Proposals

The Governor's budget also includes the issuance of other bonds that are designed to help spur economic activity in the State. The details of these bonds issues include:

University and Community College Special Maintenance: The Governor is proposing that the State Building Authority issued \$100 million of bonds in both FY 2004-05 and FY 2005-06 for special maintenance projects at universities and community colleges. The proceeds of these bonds would be distributed to the institutions based on the amount of their operating appropriations. The proceeds of the bonds could be used only for specific major special maintenance projects. The estimated annual State debt service on this \$200 million of bonding would be approximately \$20 million a year for the next 20 years.

State Building Special Maintenance: The Governor is proposing that the State Building Authority issue \$125 million of bonds in FY 2004-05 for special maintenance projects at State-owned buildings. The estimated annual debt service on this \$125 million of bonding would be approximately \$12.5 million a year for the next 20 years.

State Police Telecommunications System: The Governor is proposing that the State Building Authority issue \$13.8 million of bonds in FY 2004-05 for enhancements to the State Police telecommunications system. The estimated annual debt service on this \$13.8 million of bonding would be approximately \$1.4 million a year for the next 20 years.

Transportation Bonding: The Governor is proposing that the Department of Transportation issue an additional \$200 million of transportation revenue bonds in both FY 2006-07 and FY 2007-08. This bonding would be used to accelerate and supplement planned State road and bridge projects. The estimated annual debt service on this \$400 million of debt would be approximately \$30 million a year for the next 30 years.

School Bond Loan Fund Reform: The Governor is proposing comprehensive reform of the State School Bond Loan Fund program. This Constitution-based program provides local school districts with assistance in borrowing for capital needs. The existing program provides a State guarantee on the repayment of qualified bonds issued by local school districts and also allows local school districts the ability to levy fewer mills yearly for debt service by extending the repayment on bonds past the original life of the issue, as approved by local voters. Currently, if a district borrows from the Fund, the district must repay the loan within five years of the original debt issue being paid off unless the district undertakes another bond issue and more borrowing from the Fund. In this manner, the State cannot rely on a stable repayment schedule reflecting actual borrowing and without a change in the program; the State's debt service payment will continue to increase.

To address the above concerns, the Governor is proposing several changes in the School Bond Loan Fund. First, local school districts would not be able to borrow new money from the Fund until they have repaid their existing borrowing on a fixed repayment schedule. Second, the State would assign the rights of the assets in the existing loan portfolio of the Fund to the Michigan Municipal Bond Authority (MMBA). The MMBA then would sell a revenue bond and use the proceeds to set up a revolving fund that would no longer require the State to issue general obligation bonds for school loan purposes. The proceeds also would be used to make debt service payments in FY 2004-05 and FY 2005-06 on existing general obligation debt in the Fund (thereby saving the K-12 budget a combined \$87 million). This reform would allow for an end to the State's debt service payments on existing Fund debt in approximately 20 years and the new revolving fund would be self-sustaining without additional State debt burden.

Jobs Today for Schools: Infrastructure and Construction Loans to School Districts: As part of the Jobs Today package and related to the complicated financial transactions of restructuring the State School Bond Loan Fund, the Governor is proposing the State provide \$320 million of zero interest loans to local school districts for major renovation projects or for the demolition of obsolete buildings. This money would be loaned to school districts, up to a maximum of \$10 million per district, interest free for five years. After the five-year time period is complete, the school districts would begin to repay the loans out of existing operating budgets, or by existing authorized debt millage, if available and subject to voter approval. The second piece of this loan program would be \$180 million loaned to local school districts for the construction of small high schools. These funds would be used to construct small qualified high schools designed to increase student achievement. These loans would have the same terms and conditions of repayment as the loans issued for school renovation or demolition projects. Both loan programs would be awarded on a need basis. The Renovation/Demolition grants' criteria likely would include facilities' condition, useful life, and taxable value per pupil. The Qualified New High Schools program criteria likely would include taxable value per pupil, dropout rates, and remaining useful life of facilities. The State costs of this additional \$500 million of borrowing for school projects would be absorbed by the financing changes proposed to the School Bond Loan Fund.

Table 12

**Michigan State Government Debt Outstanding
As of September 30 of Each Year
(Dollars in Thousands)**

Year	State Government Debt			State Debt Per Capita
	General Obligation	Nongeneral Obligation	Total State Debt	
1979	\$482,500	\$1,749,940	\$2,232,440	\$241
1980	439,100	2,353,199	2,792,299	301
1981	409,600	2,692,335	3,101,935	337
1982	361,000	3,205,816	3,566,816	391
1983	309,300	4,059,541	4,368,841	483
1984	259,300	4,790,151	5,049,451	558
1985	241,700	5,501,591	5,743,291	633
1986	198,000	6,631,876	6,829,876	748
1987	157,700	6,661,528	6,819,228	742
1988	129,500	6,824,257	6,953,757	754
1989	106,400	6,878,901	6,985,301	755
1990	187,723	7,619,452	7,807,175	840
1991	162,133	8,534,758	8,696,891	928
1992	402,934	9,877,394	10,280,328	1,091
1993	420,813	9,667,846	10,088,659	1,067
1994	438,040	10,442,492	10,880,532	1,146
1995	706,006	11,073,285	11,779,291	1,234
1996	684,983	11,488,271	12,173,254	1,269
1997	655,184	12,187,613	12,842,797	1,331
1998	874,162	13,641,732	14,515,894	1,478
1999	839,377	13,812,656	14,652,033	1,486
2000	900,223	14,665,579	15,565,802	1,563
2001	998,315	16,097,046	17,095,361	1,709
2002	1,081,276	15,088,060	16,169,336	1,610
2003	1,371,038	14,198,474	15,569,512	1,544

Source: Michigan Department of Treasury Annual Reports

Table 13

Debt Statistics for the States - Fiscal Year 2002						
State	Debt at End of FY 2002 (thousands)	Rank	FY 2002 Debt Per Person	Rank	Debt, % of Personal Income	Rank
Alabama	\$6,405,164	26	\$1,430.04	38	5.6%	35
Alaska	\$5,307,941	31	\$8,280.72	1	25.4%	1
Arizona	\$4,347,558	35	\$799.04	49	3.0%	48
Arkansas	\$3,002,264	42	\$1,109.48	45	4.7%	40
California	\$71,262,728	2	\$2,035.96	29	6.2%	31
Colorado	\$5,419,234	29	\$1,204.01	44	3.5%	46
Connecticut	\$20,783,595	9	\$6,008.56	3	14.1%	6
Delaware	\$4,038,455	38	\$5,010.49	5	15.4%	4
Florida	\$20,265,599	10	\$1,214.09	43	4.1%	43
Georgia	\$8,242,834	22	\$964.75	47	3.3%	47
Hawaii	\$5,656,333	28	\$4,557.88	7	15.4%	5
Idaho	\$2,544,863	44	\$1,894.91	30	7.5%	26
Illinois	\$34,760,529	4	\$2,761.84	14	8.4%	20
Indiana	\$9,455,859	19	\$1,535.79	36	5.5%	38
Iowa	\$3,712,920	39	\$1,264.62	42	4.5%	41
Kansas	\$2,288,355	46	\$843.79	48	2.9%	49
Kentucky	\$9,038,631	21	\$2,209.93	24	8.7%	19
Louisiana	\$9,232,827	20	\$2,062.74	27	8.2%	23
Maine	\$4,321,366	36	\$3,336.96	11	11.9%	11
Maryland	\$12,308,854	16	\$2,258.09	21	6.2%	32
Massachusetts	\$45,216,090	3	\$7,040.81	2	18.1%	2
Michigan	\$21,947,042	7	\$2,185.31	25	7.3%	27
Minnesota	\$6,408,289	25	\$1,275.28	41	3.8%	45
Mississippi	\$4,159,879	37	\$1,450.95	37	6.5%	30
Missouri	\$12,692,540	15	\$2,238.54	22	7.9%	24
Montana	\$2,751,900	43	\$3,024.07	13	12.2%	10
Nebraska	\$2,215,191	48	\$1,281.94	40	4.4%	42
Nevada	\$3,667,666	40	\$1,692.51	35	5.5%	37
New Hampshire	\$5,396,517	30	\$4,235.88	8	12.4%	9
New Jersey	\$32,093,133	5	\$3,742.64	9	9.5%	17

Debt Statistics for the States - Fiscal Year 2002						
State	Debt at End of FY 2002 (thousands)	Rank	FY 2002 Debt Per Person	Rank	Debt, % of Personal Income	Rank
New Mexico	\$4,493,374	34	\$2,426.23	20	9.8%	15
New York	\$89,855,964	1	\$4,696.14	6	13.2%	7
North Carolina	\$11,128,287	17	\$1,339.79	39	4.8%	39
North Dakota	\$1,673,109	49	\$2,638.97	16	10.0%	14
Ohio	\$20,008,613	11	\$1,753.76	33	6.0%	33
Oklahoma	\$6,477,128	24	\$1,855.91	32	7.2%	28
Oregon	\$7,667,746	23	\$2,178.34	26	7.6%	25
Pennsylvania	\$20,982,531	8	\$1,701.88	34	5.5%	36
Rhode Island	\$5,855,777	27	\$5,482.94	4	17.7%	3
South Carolina	\$10,115,612	18	\$2,464.82	19	9.7%	16
South Dakota	\$2,307,536	45	\$3,036.23	12	11.4%	12
Tennessee	\$3,627,931	41	\$626.59	50	2.3%	50
Texas	\$24,008,384	6	\$1,104.49	46	3.8%	44
Utah	\$4,729,182	32	\$2,039.32	28	8.2%	22
Vermont	\$2,283,773	47	\$3,707.42	10	12.5%	8
Virginia	\$13,785,231	13	\$1,891.50	31	5.8%	34
Washington	\$13,552,176	14	\$2,233.75	23	6.8%	29
West Virginia	\$4,537,449	33	\$2,513.82	18	10.5%	13
Wisconsin	\$14,870,092	12	\$2,733.47	15	9.1%	18
Wyoming	\$1,298,017	50	\$2,601.24	17	8.4%	21
United States Total	\$642,202,068		\$2,234.48		7.2%	

Source: Bureau of the Census, U.S. Department of Commerce